

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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STR-07 CEA-01 L-03 H-02 PA-02 /112 W
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R 161730Z MAY 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 1237
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY GEORGETOWN
AMEMBASSY NASSAU
AMEMBASSY PORT OF SPAIN

UNCLAS SECTION 1 OF 2 KINGSTON 4058

E.O. 11652: N/A
TAGS: EFIN, ECON, JM
SUBJECT: IMPROVING THE INVESTMENT CLIMATE FOR THE PRIVATE SECTOR

REF: STATE 113577

1. BEGIN SUMMARY: UPON PRESENTING THE IMF-GOJ AGREEMENT TO THE HOUSE ON MAY 9, THE MINISTRY OF FINANCE TABLED A NUMBER OF MINISTERIAL PAPERS ANNOUNCING THE ESTABLISHMENT OF INSTITUTIONS AND THE INITIATION OF POLICIES DESIGNED TO IMPROVE THE CLIMATE IN THE PRIVATE SECTOR IN ORDER TO BOOST PRODUCTION AND STIMULATE NEW INVESTMENT. THE NEGLECT OF THE PRIVATE SECTOR BY GOVERNMENT POLICY IN RECENT YEARS WAS ACKNOWLEDGED AS AN ERROR. THE PAPERS (TO BE POUCHED) CONSTITUTE AN IMPORTANT FIRST STEP IN CREATING A MORE PROPITIOUS CLIMATE FOR THE PRIVATE SECTOR. END SUMMARY

2. AN OVERVIEW OF THE GOVERNMENT'S PROGRAM IS CONTAINED IN MINISTRY PAPER NO. 19 ENTITLED "STIMULATING THE PRODUCTIVE SECTOR". THE PAPER NOTES THAT JAMAICA FACES IMMENSE SHORT-
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TERM ECONOMIC PROBLEMS - UNEMPLOYMENT, INFLATION AND A BALANCE OF PAYMENTS CRISIS AND ACKNOWLEDGES THAT THE MEASURES INTRODUCED TO CORRECT THE POOR PERFORMANCE OF THE ECONOMY IN THE RECENT PAST HAD FAILED. "THE GOVERNMENT IS THEREFORE CONVINCED THAT IT MUST ARREST THE DETERIORATING SITUATION BY BRINGING TOGETHER A PACKAGE OF MEASURES DESIGNED TO STIMULATE THE PRODUCTIVE SECTORS OF THE ECONOMY". A NUMBER OF MEASURES

ARE THEREFORE PROPOSED TO PROVIDE INSTITUTIONAL SUPPORT TO THE PRODUCTIVE SECTORS, STIMULATE GROWTH BY MEANS OF A PRICING STRATEGY AIMED AT GENERATING INVESTIBLE SURPLUSES, PROMOTE EXPORTS, STIMULATE INDUSTRIAL EXPANSION, AND "DISPEL THE IMPRESSION THAT THE GOVERNMENT DOES NOT WELCOME PRIVATE FOREIGN INVESTMENT".

3. THE SPECIFIC POLICY PAPERS DESCRIBING THESE INSTITUTIONS AND POLICIES ARE AS FOLLOWS:

A. ESTABLISHMENT OF THE MIXED COMMISSION (MINISTRY PAPER NO. 18): THIS IS A TRIPARTITE COMMISSION, CONSISTING OF FIVE MINISTERS OF GOVERNMENT, FIVE PRESIDENTS OF THE PRINCIPAL PRIVATE SECTOR ORGANIZATIONS AND FIVE LEADING TRADE UNIONS UNDER THE CHAIRMANSHIP OF THE MINISTER OF FINANCE AND PLANNING. ITS TERMS OF REFERENCE WOULD INCLUDE CONSIDERING IMPORTANT MATTERS OF BUSINESS AND REACHING CONSENSUS TO AGREED ECONOMIC STRATEGIES.

B. ESTABLISHMENT OF THE SMALL ENTERPRISE DEVELOPMENT CORPORATION (MINISTRY PAPER NO. 20): SEDCO WILL BE SET UP AS A STATUTORY BODY WITH AIMS OF PROVIDING LOANS FOR THE DEVELOPMENT OF ARTISANRY AND SMALL INDUSTRIES AND BUSINESSES; PROVIDE TECHNICAL, MANAGEMENT RESEARCH AND DEVELOPMENT SERVICES TO PROMOTE SMALL SCALE ENTERPRISE; AND ADMINISTER SUCH SPECIAL FUNDS AS MAY BE PLACED AT ITS DISPOSAL.

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C. DEVELOPMENT OF THE CRAFTS INDUSTRY (MINISTRY PAPER NO. 15): THE GOVERNMENT'S MAJOR OBJECTIVES FOR THE CRAFTS INDUSTRY INCLUDE RAISING ITS OUTPUT FROM J\$33 MILLION TO J\$75 MILLION; RAISE THE ANNUAL PER CAPITA EARNINGS IN THE INDUSTRY TO J\$1,000 BY 1982; RAISE THE NUMBER OF FULL-TIME WORKERS IN THE INDUSTRY; AND FULLY EXPLOIT THE POTENTIAL OF THE INDUSTRY FOR COMMERCIAL PRODUCTION, SALE TO TOURISTS AND EXPORT.

D. A REVISED PRICING POLICY (MINISTRY PAPER NO. 17): THE PAPER RECOGNIZES THAT IN THE PAST, "PRICE CONTROLS HAVE BEEN APPLIED TO TOO WIDE A RANGE OF GOODS, AND THIS COMBINED WITH THE REGIME WHICH RESTRICTS ... THE MARGINS OF MARKUPS ON SOME COMMODITIES IN A SITUATION OF RAPIDLY RISING COSTS, HAS HAD A NEGATIVE EFFECT ON THE PRODUCTIVE SECTOR". THE NEW POLICY REDUCES THE NUMBER OF ITEMS SUBJECT TO PRICE CONTROLS, REVIEWS THE MARGIN ALLOWED TO THE DISTRIBUTIVE TRADE AND INSTITUTES A TIMETABLE THAT WILL SPEED ACTION ON PRICE INCREASE APPLICATIONS BY THE PRICES COMMISSION. MOREOVER, THE PRICES COMMISSION IS DIRECTED TO PAY PARTICULAR ATTENTION TO THE ADEQUACY OF THE RATE OF RETURN,

USING "AS A GUIDE A MINIMUM RATE OF RETURN OF 20 PERCENT".

E. INCENTIVES TO INDUSTRY (MINISTRY PAPER NO. 16):
THIS PAPER SUMMARIZES THE BENEFITS AVAILABLE TO INDUSTRIES
UNDER THE INDUSTRIAL AND EXPORT INCENTIVE LEGISLATION, WHICH
INCLUDE FULL EXEMPTION FROM INCOME TAX, CUSTOMS AND CONSUMPTION
DUTIES ON EQUIPMENT AND MACHINERY; AND FROM CUSTOMS DUTIES ON
RAW MATERIALS FOR APPROVED ENTERPRISES PRODUCING FOR DOMESTIC
AND CARICOM MARKETS FOR PERIODS OF FIVE, SEVEN OR NINE
YEARS, DEPENDING ON THE LEVEL OF LOCAL VALUE ADDED IN
THE OPERATIONS OF THE ENTERPRISE. A TAX HOLIDAY OF TEN
YEARS MAY BE OBTAINED FOR EXPORT ORIENTED INDUSTRIES
APPROVED UNDER THE EXPORT INDUSTRY ENCOURAGEMENT ACT.

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F. POLICY ON FOREIGN INVESTMENT (MINISTRY PAPER
NO. 13):
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ACTION ARA-14

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THIS PAPER DOES NOT INCORPORATE ANY NEW POLICIES BUT
RESTATES THOSE IN EXISTENCE " IN THE HOPE OF FOCUSING

ATTENTION ON INVESTMENT OPPORTUNITIES AND ATTRACTING GREATER INFLOWS OF PRIVATE FOREIGN INVESTMENT". THE GOVERNMENT INVITES NON-RESIDENT INVESTORS TO UNDERTAKE INVESTMENTS IN THE FORM OF JOINT VENTURES WITH LOCAL INTERESTS. PARTICULARLY WELCOME ARE FOREIGN INVESTMENTS IN THE AREA OF CREATING OR EXPANDING CAPACITY, AS WELL AS INVESTMENTS LINKED TO THE INTRODUCTION OF NEW TECHNOLOGY. THE PAPER STATES THAT "IT IS THE POLICY OF GOVERNMENT TO AVOID COMPULSORY ACQUISITION OF ENTERPRISES, BUT WHERE THIS IS FOUND TO BE NECESSARY, IT WILL BE ON THE BASIS OF ADEQUATE COMPENSATION AS PROVIDED FOR UNDER THE CONSTITUTION OF JAMAICA". WITH REGARD TO REPATRIATION OF CAPITAL, THE PAPER NOTES THAT "THE BANK OF JAMAICA WILL GRANT APPROVAL FOR THE REPATRIATION OF CAPITAL FROM JAMAICA IN RESPECT OF ALL CASES OF NON-RESIDENT INVESTMENT IN THE ISLAND THAT HAVE BEEN DULY APPROVED BY AND REGISTERED WITH THE BANK".

G. THE GOVERNMENT'S OVERALL POLICY STATEMENT CONTAINED UNCLASSIFIED

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IN MINISTRY PAPER NO. 9 CONCLUDES THAT "WHILE THE GOVERNMENT WITHIN THE FRAMEWORK OF DEMOCRATIC SOCIALISM IS COMMITTED TO PUBLIC OWNERSHIP OR CONTROL OVER THE COMMANDING HEIGHTS OF THE ECONOMY, IT IS AT THE SAME TIME, EQUALLY COMMITTED TO THE MAINTENANCE OF AN ACTIVE AND DYNAMIC PRODUCTIVE SECTOR WITH BOTH THE PUBLIC AND PRIVATE SPHERES PLAYING THEIR RESPECTIVE ROLES".

4. COMMENT: WITH THE PUBLICATION OF THESE PAPERS, THE GOVERNMENT HAS GONE FAR IN ADMITTING THAT ITS POLICIES IN RECENT YEARS OF PLACING MAJOR RELIANCE ON PUBLIC INVESTMENT, OWNERSHIP AND CONTROLS WHILE DISCOURAGING PRIVATE SECTOR ACTIVITY WERE IN ERROR. WE REGARD THESE PAPERS AS AN IMPORTANT FIRST STEP IN ESTABLISHING A BETTER ENVIRONMENT FOR THE PRIVATE SECTOR.

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